

*Building the Future for Canadians*

# Budget 1997

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## Towards a National Child Benefit System

February 1997



Canada



*“Choosing [to reduce child poverty] as the first focus for our fiscal dividend says ... much about the values of a government – and a nation ...”*

*[We have begun] the work of developing an effective, modern, truly national approach to benefits and services for children.... A well-spent early dividend from our collective battle against deficits – federal and provincial.”*

*Prime Minister Jean Chrétien  
February 13, 1997*

## **Towards a National Child Benefit System**

The experiences one has in childhood can define a lifetime. But for too many of Canada's children, the experiences of their formative years are not what they should be. Children growing up in low-income families run a higher risk of not getting the start they need. And there is a growing consensus that, although governments in Canada already provide substantial support for families with children, current arrangements must be improved to address the problem.

### **Problems with the current system**

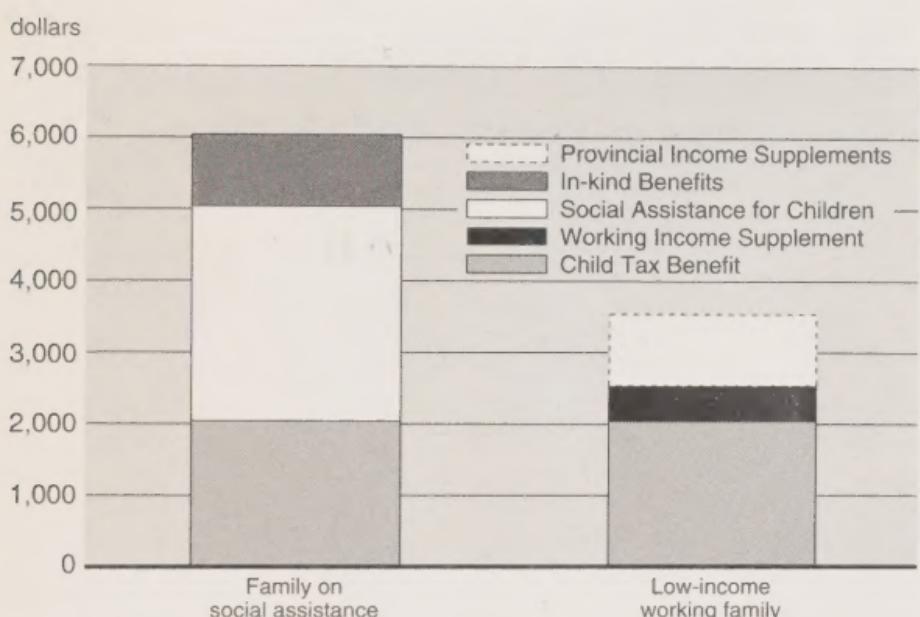
Concerns about the current system extend beyond the level of support that it delivers, to the question of whether support is delivered in as fair and effective a manner as possible.

A particular difficulty is that parents who want to leave social assistance for a job often encounter a drop in benefits that can keep them up against the so-called “welfare wall”. For a



parent with two children, for example, moving off welfare to take a job may mean losing child benefits of \$3,000, as well as dental and prescription drug benefits.

#### *Welfare versus working family with two children*



Note: Levels of provincial benefits vary among provinces; representative levels are shown.

## **Federal-provincial review of child benefits**

The federal, provincial and territorial governments have been examining ways to improve assistance to children in low-income families. The proposed approach is a National Child Benefit System. Under this System, the federal government would introduce an enriched Canada Child Tax Benefit, while provinces and territories would redirect some of their spending to improve services and benefits for low-income families with children. First Nations' children on reserve would benefit like other Canadian children from the initiative.



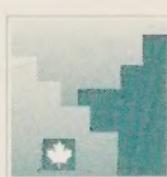
## **What the federal government does now: The current Child Tax Benefit**

The current Child Tax Benefit provides monthly tax-free payments to 85 per cent of all Canadian families with children. These benefits total over \$5.1 billion annually.

Under the current system, families with net income up to \$25,921 receive a basic benefit of \$1,020 a year per child, an additional \$75 for the third and subsequent children in the family, and a further supplement of \$213 for each child under age seven when no child care expenses are claimed. The Benefit begins to be reduced once net family income exceeds \$25,921 and reaches zero at an annual net income of about \$66,700 for one- and two-child families.

The Child Tax Benefit also includes a Working Income Supplement (WIS), which currently provides up to \$500 a year per family. (The 1996 federal budget announced an increase of \$250 million to the Working Income Supplement to be in place by July 1998.) The Working Income Supplement was designed to help offset some of the additional costs that lower-income families with children experience when joining the workforce. The current Working Income Supplement is paid on a per-family basis and therefore does not take into account the extra costs incurred by larger families.





## **What the budget proposes: An enriched Canada Child Tax Benefit**

The 1997 budget proposes a two-step enrichment of the current \$5.1 billion Child Tax Benefit, to create a new \$6 billion Canada Child Tax Benefit by July 1998. This \$850 million annual increase includes \$600 million in new funds in addition to the \$250 million increase in the Working Income Supplement proposed in the 1996 budget.

### ***First step – July 1997***

- The Working Income Supplement will be enriched by \$195 million (\$70 million more than proposed last year).
- Benefits will now be provided for each child, instead of per family.
- The maximum benefit will be increased from \$500 per family to:
  - \$605 for the first child;
  - \$405 for the second child; and
  - \$330 for each additional child.
- 720, 000 Canadian families with 1.3 million children will be better off – one-third of them headed by single parents.

### ***Second step – July 1998***

- The Working Income Supplement will be combined with an enriched Child Tax Benefit to form the Canada Child Tax Benefit.





- The Canada Child Tax Benefit will provide a maximum annual amount of \$1,625 for the first child and \$1,425 for each additional child. Maximum benefits for low-income families will rise as indicated below:

#### Comparison of current maximum federal benefits with proposed 1998 benefits

	Base	Current benefit <sup>1</sup> with WIS	Proposed benefit <sup>1</sup>
		(\$)	(\$)
1 child	1,020	1,520	1,625
2 children	2,040	2,540	3,050
3 children	3,135	3,635	4,475
4 children	4,230	4,730	5,900

<sup>1</sup> Plus \$213 for each child under seven when no child care expenses are claimed.

- Over all, more than 1.4 million Canadian families and 2.5 million children will see an increase in federal child benefit payments by July 1998:

- families with income under \$25,921 will receive higher federal benefits, while those with income over \$25,921 will continue receiving benefits at their current levels; and
- families with income under \$20,921 will receive maximum federal benefits.



## Complementary provincial actions

- Enriched federal benefits will enable provinces and territories to redirect some of their social assistance resources towards improving children's services and income support for low-income working families.
- Possible examples include:
  - "in-kind" benefits or services like day care and drug or dental plans for low-income working families;
  - low-income child credits; and
  - earned-income credits.
- Support for low-income working families would be increased.
- Families on social assistance would receive no less over all, and would retain more services and income support when entering the labour force.

## A major step forward

The federal government is firmly committed to improving the assistance to children in low-income families. A National Child Benefit System is a major step forward, both in investing in children and in building the future for Canadians.

*"Our children are our most precious resource and ensuring their health is our greatest responsibility.... There can be no more worthy effort than a new partnership on behalf of Canada's children."*

*Finance Minister Paul Martin  
1997 budget speech*



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